



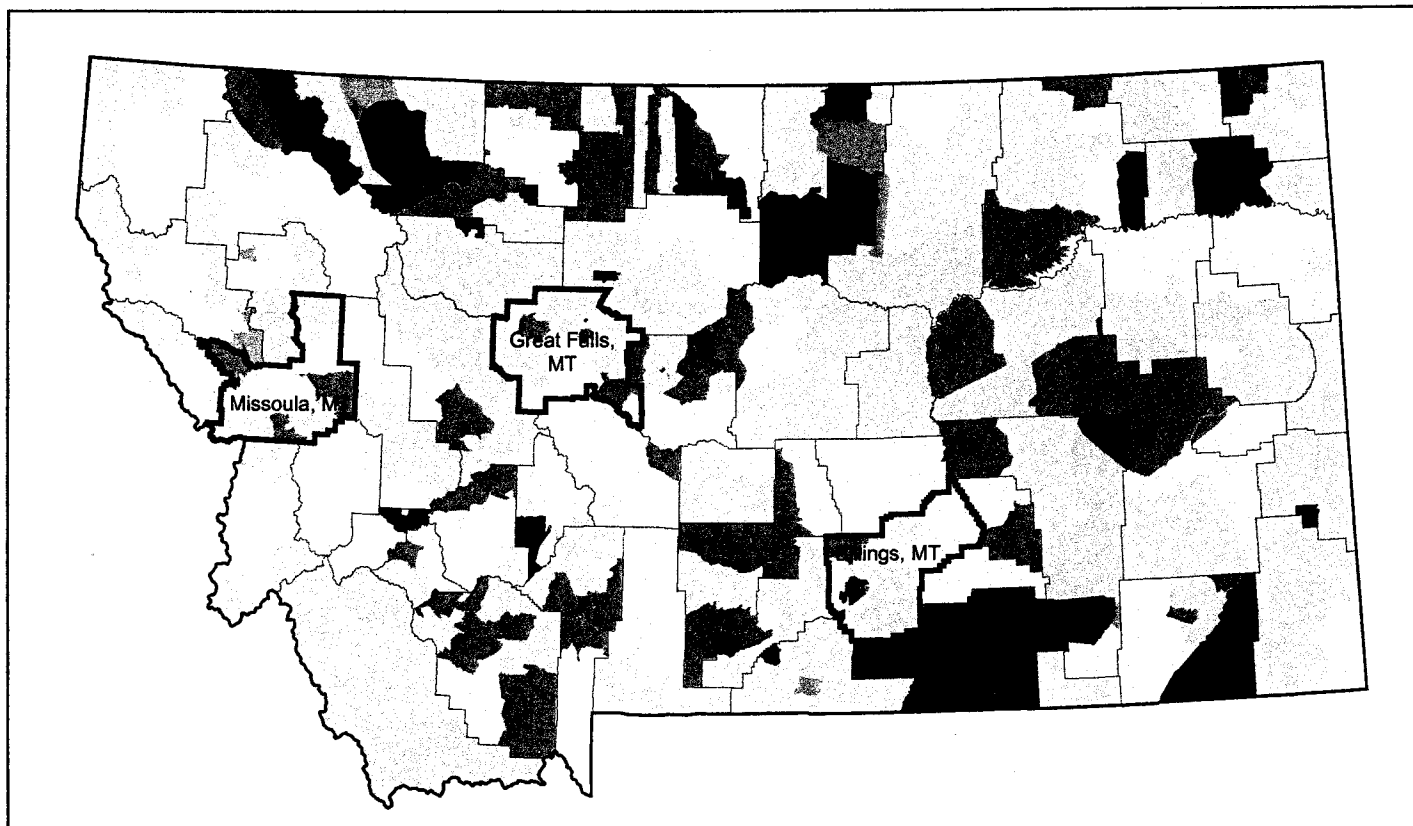
Help Montana Working Families Become Self-Sufficient It's Time to Support a State Earned Income Tax Credit (EITC)

A state EITC would provide tax relief to hard-working, low-income families, helping them close the gap between what they earn and what they need to make ends meet. A state EITC, piggybacking on the federal EITC, would help families and put millions of dollars back into the local economy. In 2003, 72,000 Montana households in every urban, suburban, and rural community claimed the federal EITC, returning \$118 million to low-wage earners. Twenty states, including the District of Columbia, have enacted state EITCs. It is time for Montana to follow their lead and enact a state EITC.

- ◆ **A State EITC Can Make a Significant Difference for Hard-Working Families.** The National Center for Children in Poverty found that the federal EITC reduces child poverty for young children by nearly 25 percent – more than any other government program. A state EITC builds on the benefits of the federal EITC. A state EITC would relieve the regressive nature of payroll and property taxes, and make Montana's state tax system more equitable.
- ◆ **The EITC Has a History of Bi-Partisan Support.** Enacted in 1975 under President Ford, and expanded under Presidents Reagan, Bush and Clinton, the federal EITC is supported by policy makers on both sides of the aisle. President Reagan called the EITC "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." Twenty state EITCs have been enacted with both Democratic and Republican governors.
- ◆ **The EITC Stimulates the Local Economy.** Working families use the EITC refund to pay off debt, finance transportation to work, invest in education, and buy basic necessities. Dollars spent in the local community provide an economic stimulus to the state, including urban, suburban and rural communities.
- ◆ **The EITC Provides a Vehicle to Build Assets.** Many working families use their EITC refund as a first step to build assets, financial security and long-term wealth.
- ◆ **How Would A State EITC Work?** A state EITC simply piggybacks on the federal EITC. A state EITC would provide low-income working families with a refund equal to 20 percent of their federal EITC return, even if they don't owe state income taxes. An addition of one line to the state income tax form is all that is needed to implement the state EITC.
- ◆ **Who Would Benefit From a State EITC In Montana?** Working families with incomes of up to \$32,001 with one child and up to \$36,348 with two+ children, qualify for the federal EITC, the same threshold for a state EITC. Most beneficiary families (74 percent) earn less than \$20,000 per year; working families with incomes between \$11,500 and \$16,000 benefit the most. About 17 percent of Montana tax filers claim the federal EITC. The average federal credit is \$1,641; the average credit projected for a state EITC would be \$328. Working Montana families in urban, rural and frontier communities benefit from the EITC.
- ◆ **How Much Would a State EITC Cost the State of Montana?** A 20 percent, refundable EITC would cost about \$23 million annually.

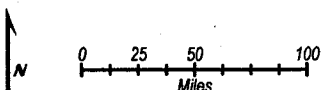
Montana

EITC Recipients as a Percentage of Total Returns by Zip Code, TY 2001



Percentage Recipients

No Data	15' - 20%
0 - 5%	20 - 30%
5 - 10%	30 - 40%
10 - 15%	> 40%



- Metro Boundary
- City Boundary
- County Boundary
- Zip Code Boundary

Percentage Recipients

Large City	Large Suburb	Small Metro	Rural
N/A	N/A	13.8%	15.9%

REFUND ANTICIPATION LOAN (RAL) USAGE IN MONTANA

The average percentage of refund dollars spent on RAL fees in Montana is 0.5%. Seven House Districts spent **twice** the average on RAL fees, and five spent more than **three times** the average. The ten House Districts that spent the most on RAL fees are:

PERCENTAGE OF REFUND DOLLARS SPENT ON RAL FEES

House District 15	1.8 percent
House District 16	1.7 percent
House District 42	1.7 percent
House District 31	1.6 percent
House District 41	1.6 percent
House District 12	1.0 percent
House District 44	1.0 percent
House District 22	0.8 percent
House District 23	0.8 percent
House District 24	0.8 percent

- Native Americans are disproportionately targeted by tax preparers issuing RALs.
- Five districts saw more than 1.5% of their refunds leave the district in the form of RAL fees – *more than three times the state average.*
- All five districts contain Reservations.
- The average percentage of people in Montana who used a paid preparer and obtained a RAL is 11.7%. Seven House Districts had numbers at least ten percentage points higher, five were well above 30%. The ten House Districts with the largest percentage of filers paying RAL fees are:

PERCENTAGE OF PEOPLE WHO UTILIZED PAID TAX PREPARERS AND RECEIVED A RAL

- Again, the five districts above 30% contain Reservations. *All are well above twice the state average.*
- Filers in House District 15 obtained RALs at nearly four times the state average.
- Together, districts **15, 42, 41, 31** and **16** account for just 6% of filers who used paid preparers, but they account for 18.6% of filers who paid for RALs.

House District 15	46.6 percent
House District 42	41.6 percent
House District 41	35.7 percent
House District 31	34.7 percent
House District 16	33.8 percent
House District 12	23.0 percent
House District 44	21.6 percent
House District 22	20.4 percent
House District 24	20.1 percent
House District 21	20.0 percent

PERCENTAGE OF FILERS WHO RECEIVED THE EITC

House District 15	42.4 percent
House District 42	39.7 percent
House District 31	37.3 percent
House District 41	35.0 percent
House District 16	32.0 percent
House District 12	28.9 percent
House District 44	22.5 percent
House District 36	21.9 percent
House District 32	21.0 percent
House District 23	20.8 percent

- The value of the EITC is diminished when a significant percentage of it is spent to obtain a RAL. Studies have shown that *most RAL borrowers do not realize that a RAL is, in fact, a loan.*
- It is no coincidence that the seven districts that top the above two charts also top the one on the left – low-income workers purchase RALs at a disproportionately higher rate.
- Cited RAL fees do not include tax preparation fees which can double the cost of RALs.

Dear Representative,

For more than thirty years, the Federal Earned Income Tax Credit (EITC) has been used to combat poverty in the United States. Each year, the EITC lifts more children out of poverty than any other program. Enjoying broad bi-partisan support, the EITC was enacted under President Ford and expanded under every president since. Ronald Reagan called it "the best anti-poverty, the best pro-family, the best job creation measure to come out of congress."

Twenty states (including the District of Columbia), led by both Democrats and Republicans, have enacted their own versions of the EITC program in efforts to enhance the Federal program's proven success. At least twelve states, other than Montana, are considering EITC legislation during the 2007 session.

This packet has been prepared for you with data that is specific to your legislative district. Inside, you will find information regarding the benefits of the EITC program as well as cost, the impact the EITC has on your constituents and how they may be better served by expanding awareness of the Federal program and a Montana EITC. If you have any further questions regarding the Earned Income Tax Credit, please feel free to contact me.

Sincerely,



Sean Moore
Consumer Credit Counseling Service
Rural Dynamics Inc.
2022 Central Avenue
PO Box 2326
Great Falls, MT 59403
Ph. 406-761-8721
Fax. 406-761-8622
seanm@cccsmt.org

A COMMUNITY SERVICE NON-PROFIT ORGANIZATION SINCE 1968
Toll Free 1-877-ASK-CCCS

Visit our web-site at: www.cccsmt.org

THE EARNED INCOME TAX CREDIT AND HOUSE DISTRICT 78

- At the current Federal EITC participation rate, enacting a Montana EITC set at 20% would bring another \$1,149,071 into House District 78.

Nationally, 15 to 16 percent of all tax filers claim the EITC.
In Montana, 17 percent of filers claim the EITC.
In House District 78, 13.6 percent of filers claimed the EITC.

- Research indicates that 15 to 20 percent of eligible filers fail to claim the EITC each year because they are unaware of the program or they cannot obtain the help necessary to file their tax return.* If these estimates hold true in your district, increasing the current number of claimants 10 percent would help another 362 low-income workers and bring \$430,902** into House District 78.
- Assuming an average cost of \$105 per Refund Anticipation Loan,** RAL fees cost House District 78 \$175,875 in 2003. \$3,215,310 was spent on RAL fees across all of Montana. Since the largest issuers of RALs are based out-of-state, much of this money may have also left Montana.

SO WHAT CAN YOU DO FOR YOUR CONSTITUENTS?

- ◆ **VOTE TO ENACT HB 289** to create an Earned Income Tax Credit for Montana.
- ◆ Promote the EITC program and encourage your constituents to see if they qualify.
- ◆ **VOTE TO ENACT LC 1787** to regulate tax Refund Anticipation Loans (RALs).
- ◆ Encourage your constituents to see if they qualify to have their taxes prepared for free.
www.montanafreefile.org

* Center on Budget and Policy Priorities & The Brookings Institution

** This number is obtained by increasing the current EITC claimants by 10%, multiplying that by the average EITC claim and taking 75% of that number since research indicates that those who fail to claim the EITC are generally eligible for slightly smaller credits than those who do claim it.

*** \$105 may be a conservative estimate. The number was chosen based on average rates charged by RAL lenders which are approximately \$50 plus 3 percent (some lenders use 4 percent) of the expected return. Using the average refund for Montana in 2003 (\$1878) as the return amount yields approximately \$55.

HD 78

Zipcode	City	County	total returns 2003	total EITC 2003	total EITC amount 2003	total refunds 2003	total refund amount 2003	total number of RALs	self prepared	paid preparer	volunteer preparer	free file
59601	East Helena	Lewis & Clark	404	52	77,075	315	508,296	24	195	197	6	2
59601	Helena	Lewis & Clark	11,733	1,504	2,240,845	9,146	14,778,007	712	5,659	5,732	176	59
59601	Helena W. Side	Lewis & Clark	463	59	88,339	361	582,580	28	223	226	7	2
59601		Lewis & Clark	724	93	138,362	565	912,475	44	349	354	11	4
59602	Helena	Lewis & Clark	233	32	54,248	184	319,981	15	107	121	3	1
59602	Helena Valley NE	Lewis & Clark	961	133	223,522	758	1,318,444	61	440	498	12	4
59602	Helena Valley NW	Lewis & Clark	943	131	219,309	743	1,293,591	60	432	488	12	4
59602	Helena Valley SE	Lewis & Clark	1,468	204	341,498	1,157	2,014,325	93	673	760	18	6
59602	Helena Valley WC	Lewis & Clark	3,162	438	735,558	2,493	4,338,688	201	1,449	1,638	39	14
59602	Helena W. Side	Lewis & Clark	308	43	71,734	243	423,120	20	141	160	4	1

59602		Lewis & Clark	1,210	168	281,562	954	1,660,793	77	555	627	15	5
59604	Helena	Lewis & Clark	1,226	168	230,652	924	1,442,055	60	515	666	17	0
59620	Helena	Lewis & Clark	0	0	0	0	0	0	0	0	0	0
59623	Helena	Lewis & Clark	0	0	0	0	213	0	0	0	0	0
59624	Helena	Lewis & Clark	537	68	79,276	383	895,500	13	227	295	0	0
59625	Helena	Lewis & Clark	44	0	0	34	17,398	0	33	10	0	0
59635	East Helena	Lewis & Clark	429	72	130,054	348	555,377	36	207	211	5	3
59635	Helena Valley SE	Lewis & Clark	2,073	346	628,062	1,681	2,682,046	174	1,001	1,017	25	16
59635	Montana City	Lewis & Clark	81	14	24,564	66	104,897	7	39	40	0	0
59635		Lewis & Clark	596	99	180,696	484	771,636	50	288	293	7	5
Total			26,595	3,624	5,745,356	20,839	34,619,422	1,675	12,533	13,333	357	126

HOW TO READ THE TAX TABLE:

The table was created by zip code and includes the zip codes that coincide with your legislative district. This is the most accurate means available for tracking tax returns within your district. Some zip codes do fall within multiple districts; regardless, the statistics pertain to your district and the immediate surrounding communities. The data used is from the 2003 tax year, the most recent comprehensive data available for the program used to create the tables.

From the left, the first three columns provide information regarding the zip codes used to compile the data (zip code, town/city and county).

- **total returns 2003:** the total number of returns filed within those zip codes for the 2003 tax year.
- **total EITC 2003:** the total number of returns within those zip codes receiving the federal EITC for the 2003 tax year.
- **total EITC amount 2003:** the sum of all federal EITC dollars received by filers within those zip codes for the 2003 tax year.
- **total refunds 2003:** the total number of returns within those zip codes receiving a refund for the 2003 tax year.
- **total refund amount 2003:** the sum of all refunds received by filers within those zip codes for the 2003 tax year.
- **total number of RALs:** the total number of returns within those zip codes with preparer debt inquiries – proxy for Refund Anticipation Loans (RALs).
- **self prepared:** the total number of returns within those zip codes prepared by the taxpayer.
- **paid preparer:** the total number of returns within those zip codes prepared by a paid tax preparer.
- **volunteer preparer:** the total number of returns within those zip codes prepared by volunteer organizations (VITA, Military VITA and TCE).
- **free file:** the total number of returns prepared by the taxpayer and filed electronically through the Free File Alliance online portal.

Note: The tax tables were created using a program available from the Brookings Institution, which receives its tax data directly from the IRS. An explanation of how the data is compiled has been included on the last page.

Why are some ZIP codes shown twice and/or not associated with a city/town?

The ZIP code-level data that the IRS provides to Brookings contains county, state, and city identifiers. However, the IRS assigns ZIP codes to cities and towns based on information from the U.S. Postal Service, which associates a ZIP code with the name of the city or town nearest to its post office location. In many instances, this does not reflect the location of the bulk of the ZIP code itself, because ZIP codes do not conform to municipal boundaries.

To assign ZIP codes to cities and towns, we used files from the University of Missouri's MABLE website. This site provides data that associate ZIP Code Tabulation Areas (ZCTAs)—Census Bureau representations of U.S. Postal Service ZIP codes—to places based on Geographic Information Systems (GIS) and Census 2000 block-level data. These data identify the portion of each ZCTA lying within each place, based on the population of constituent census blocks (the smallest units for which the Census Bureau tabulates data).

In the data returned to the user, some ZIP codes may be displayed more than once to indicate that they reflect "split" or partial ZIP codes, assigned to more than one city or town. Return and dollar amount values in these instances are estimated by allocating ZIP code totals based on the percentage of the ZCTA's population that falls within the municipality's borders. Additionally, some ZIP codes (or portions thereof) are not assigned to any city or town, reflecting their location in unincorporated county territory. Note that because the website employs these GIS and estimation techniques, the place-level data displayed here will differ from city-level data one would obtain directly from IRS files.

Some ZIP codes do not have a corresponding ZCTA and as a result are not identified by the MABLE website. Many of these ZIP codes are assigned to a Post Office Box or single business. The website attempts to match as many of these ZIP codes as possible to cities and towns based on the city identifier included in the original IRS data.

Important Note: Because of the estimation techniques employed in assigning ZIP codes to cities and towns, some data displayed will include return counts of less than 10. These represent estimates only. ZIP code data provided by the IRS suppress any return counts of less than 10 for confidentiality purposes. These small ZIP code-level counts should be interpreted only in conjunction with data from other ZIP codes (e.g., at the place, county, metropolitan, or state levels) and not as stand-alone entities.

How are state, metropolitan area, and county names assigned?

State and county identifiers displayed to the user are taken directly from IRS files. In general, ZIP codes conform to state and county boundaries. The metropolitan area names are assigned by Brookings based on the metropolitan area definitions announced by the Office of Management and Budget. Metropolitan areas are composed of counties.

Note that EITC dollars claimed and tax refunds received are not equivalent. Some EITC dollars (13 percent nationwide) offset income taxes that families owe, and thus do not translate directly into refund dollars. Additionally, families may claim other credits (like the Child Tax Credit, the Child and Dependent Care Tax Credit, and Education Credits) that add to their refunds, and some refund dollars represent taxes that were over-withheld over the course of the year. For most low-income families who receive tax refunds, however, the EITC makes up the largest part of those refunds—and is thus the most important part of the federal tax code for many low-income communities. Users can calculate the relative contribution of the EITC to low-income taxpayers' refunds by comparing the EITC amount and Refund amount for EITC Returns in the selected geography and tax year.